Flexible Guarantee Bond
Flexible Guarantee Funds
All-In-1 Investment Bond
Guaranteed Capital Bond
& Flexi Guarantee Plan

Your guide to how we manage our with-profits business

Contents

1 Introduction

This guide explains how we look after our with-profits business.

If you have one of the following products this guide applies to you:

- Flexible Guarantee Bond Series 1
- Flexible Guarantee Bond Series 2
- Flexible Guarantee Bond Series 3
- Flexible Guarantee Funds Series 1
- Flexible Guarantee Funds Series 2
- All-In-1 Investment Bond
- Guaranteed Capital Bond
- Flexi Guarantee Plan

You'll find important information about how these products work and how we manage them. At the end of the guide there is a helpful glossary of some of the financial and insurance terms we've used. The terms in **bold font** are those that you'll find in the glossary.

There are separate guides available for our other with-profits policies and plans, and also for the with-profits business in the **RNPFN Fund** and **Teachers Assurance Fund**.

To put this guide into context, it might help to read it with your:

- Key Features document (for bonds started before 1 January 2018 and all Flexible Guarantee Funds)
- Key Information Document and Supplementary Information Document (for bonds started from 1 January 2018)
- Bond or Plan Conditions
- Personal Illustration showing what you might get back in the future.

To make this guide easier to read we've used the word plan when referring to any of the products listed above.

Please keep this guide safe along with your other documents.

You can download a copy from our website **LV.com/manage**. If you'd like us to send you one please contact us using the details below.

For Flexible Guarantee Bonds, Flexible Guarantee Funds and Flexi Guarantee Plan

You can email us at **BondServicing@LV.com**, call us on **0800 681 6292** (we will record and/or monitor your calls for training and audit purposes) or write to us at LVFS, County Gates, Bournemouth, BH1 2NF.

For the All-In-1 Investment Bond and Guaranteed Capital Bond

You can email us at **LifeServicing@LV.com**, call us on **0800 681 6294** (we will record and/or monitor your calls for training and audit purposes) or write to us at LVFS, County Gates, Bournemouth, BH1 2NF.

2 Background on LVFS

We've been looking after our customers' money since 1843.

All our with-profits business, such as the plans you invest with us, is held within Liverpool Victoria Financial Services Limited (LVFS). We combine your money with other investors' money and manage it on your behalf. There are other types of policies in **LVFS**, together with its **inherited estate** (explained in section 10).

LVFS is a mutual company limited by guarantee which means we have no external shareholders but are owned by our **members**, such as yourself.

3 What fund am I invested in and how is it invested?

Different with-profits policies and plans invest in different mixes of assets within **LVFS**.

You will have chosen a fund with a specific mix of assets at the start of your plan, with most plans allowing you to switch into a different fund. The fund options available depend on the plan you own and will be detailed in your annual statement and in the information about your plan given to you when it started.

The aim of the investment strategy for your chosen fund option is to optimise the return to with-profits policyholders while preserving a level of risk to the return which is consistent with our assessment of with-profits policyholders' expectations and the ability of **LVFS** to meet its commitments to its policyholders. It will also take into account past communications to policyholders, developments in investment practice and requirements of specific product features. In determining the mix of assets between different asset classes, the investment strategy will take account of the long-term expected returns available in the asset classes, their volatility and the benefits to be obtained from diversification, the current and projected **financial strength** of **LVFS** and its ability to meet its regulatory capital requirements and the nature of its **liabilities**.

The general asset management of the fund is undertaken on our behalf by Columbia Threadneedle Investments. They are responsible for the day-to-day management of the **assets** in the fund, operating consistently with the risk profile of your chosen fund option.

The investment performance of your chosen fund option and the outlook for different types of **asset** are regularly monitored. We also review our investment strategy in detail each year. Any changes would be consistent with the risk profile of your chosen fund option.

Typical investments made by the fund include:

- the **shares** (also known as equities) of UK and overseas companies
- **fixed-interest investments** such as **government bonds** and corporate bonds
- **property**
- cash

You can see the current and target mix of investments in your chosen fund option on our website at **LV.com/asset-allocation**. Here you can also see investment information including the performance of the fund. Alternatively you can also get this information by contacting us – see section 1 above for the different ways we can be contacted.

4 What's the aim of our with-profits business?

We want to give you a fair return on your investment. We have different groups of with-profits policyholders, with different plans started at different times, and with different terms. We always try to treat our policyholders fairly when there are any conflicting interests between them.

5 What's a unitised with-profits plan?

The products this guide applies to are unitised with-profits plans. A unitised plan invests in a fund, containing a mix of **assets**, that is split into units. When you invest in your plan we'll allocate a number of units, the amount will depend on the value of the units at the time. We also cancel units to pay charges and to pay any withdrawals. To measure your plan's value the number of units held is multiplied by the unit price.

Example

Fred invests a lump sum of £10,000 in a Flexible Guarantee Bond.

If the current unit price is £1.25, we'll divide the £10,000 by £1.25, giving Fred 8,000 units.

Your return will depend on the number and value of your plan's units. The value will change over time in line with the movement in the unit price. There's also a chance that we might use a lower price to calculate the value of your plan than the price we normally use. You can find out more about this in section 6.

Example 2

Since Fred invested £10,000 into his Flexible Guarantee Bond, due to ongoing charges taken the number of units held has reduced from 8,000 (when he took the plan out) to 7,900 and unit price used to calculate the unit price used to calculate the cash-in value has increased to £1.50.

The current cash-in value of the units in Fred's plan is 7,900 x £1.50 which is £11,850 plus any **mutual bonus**.

6 How do we cushion you from the ups and downs of the stock market?

Investments such as **shares** can rise and fall in value sharply. Large market movements over short periods of time could potentially mean a significant change to the value of your plan in a matter of days or weeks.

In order to protect you from some of the day-to-day stock market changes, we smooth the unit price we normally use to calculate the value of your plan. This means you receive some protection if you happened to cash-in some or all of your investment at a time when stock market performance has been weak. On the other hand, if you cash-in your investment when stock market performance has been strong, the smoothing effect would mean that you wouldn't benefit in full from the strong performance.

To allow for smoothing, we give your plan two unit prices. One is the 'pure' unit price, which reflects the market value of the investments. We call this the 'underlying price'. The other unit price is the average unit price over the last 26 weeks, which we call the 'averaged price'. It's possible for the averaged price to be lower than the underlying price, if for example the stock market rises rapidly over a short period of time.

When you first invest, we allocate units to your plan at the underlying price. However, as long as you invest in your fund option for at least 26 weeks, we'll normally use the averaged price to calculate the value of your investment when you cash it in.

In exceptional market conditions (when the underlying price is 80% or less of the averaged price) if you cash-in (or take any money out) we'll calculate your payout using the underlying price, rather than the averaged price. We'll revert back to the averaged price when the underlying price has returned to the same level as the averaged price. We do this to be fair to all our with-profits policyholders and this is not a means of producing business profits.

The likelihood of this happening depends on your chosen fund option. Historically, funds that invest more in **shares** than other safer asset classes, for example cash, have produced larger rises and falls over short periods of time. It's these rises and falls that can result in a large difference between the two prices.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the following also applies:

In other exceptional circumstances if you cash-in (or take any money out) we'll calculate your payout using the underlying price, rather than the averaged price. For example, if required to protect the fund you are invested in for its remaining investors or if it is in the best interests of our with-profits policyholders generally. We'll revert back to using the averaged price when we consider it appropriate and fair.

We will always use the averaged price for death and terminal illness claims, as long as you've been invested in your fund option for at least 26 weeks.

7 How do we decide the return on your plan?

We want to make sure that every investor receives a fair return. The return that you receive is based on the amount you invest, withdrawals you've taken, the charges we take to cover our expenses, tax and the cost of providing benefits, and the return we earn on the investments supporting your plan. The investment return will depend on the fund option you've chosen. For details of the investment mix for the fund option you're invested in please refer to your:

- Key Features document (for bonds started before 1 January 2018 and all Flexible Guarantee Funds)
- Supplementary Information Document and Key Information Document (for bonds started from 1 January 2018).

The current mix is also shown on our website at **LV.com/asset-allocation**

As we've said in section 6, we try to smooth out some of the ups and downs of the stock market, and this also affects your return. We may also add a **mutual bonus** (see section 11). For All-In-1 Investment Bonds and Guaranteed Capital Bonds we may also add an **exit bonus** (see section 11).

You may also have a guarantee for your plan, which is explained in your Key Features document, or Key Information Document and Supplementary Information Document.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2 the following also applies:
We can delay buying or selling units (including when changing fund options) in certain circumstances. Further details of this are in your Bond or Plan Conditions.

8 What expenses are charged to your plan?

As with any investment, there are certain costs involved in setting up and looking after a with-profits plan – including commission payments (where relevant), administration costs and other expenses. The charges taken from your plan are taken to cover these expenses. You can find out more about them in your Key Features document, or Key Information Document and Supplementary Information Document.

9 What business risks can affect with-profits policies in LVFS?

The profits or losses from all business risks within **LVFS** are credited to or borne by the **inherited estate** and may, if the **LV= Board** determines to allocate such profits or losses, influence the amount payable on your plan.

Distributions of profits made since 2011 are currently added as **mutual bonus** and **exit bonus**.

In exceptional circumstances in order to treat all policyholders fairly, losses from business risks may result in deductions to payouts. We would remove any **exit bonus** first, then reduce or remove expected future **mutual bonus**, before removing prior **mutual bonus**, and finally making deductions from the rest of the payout.

New business will only be accepted into **LVFS** if, in the opinion of the **LV= Board**, the terms on which the business is effected are likely to have no adverse effect on the interests of the existing with-profits policyholders in **LVFS** nor threaten the ability of **LVFS** to meet its commitments to its **members**.

The other key business risks of **LVFS** arise from:

- variations in such factors as policy longevity, annuity take-up rates and the proportion of policies in-force that are not expected to claim and expenses
- higher contributions associated with staff defined benefit pension schemes
- exceptional or unexpected expenses
- compensation to policyholders, resulting from mis-selling and maladministration
- variations in costs of guarantees, options and smoothing
- the value of the investments of the **inherited estate** of **LVFS**
- the risk that the **RNPFN Fund** and the **Teachers Assurance Fund** cannot meet their **liabilities**.

10 What's the 'inherited estate' and how do we use it?

The **inherited estate** means the excess of the **assets** of **LVFS** over all its **liabilities**. It's money that has been building up since we began in 1843, from generations of plans where we've made more profit than we anticipated.

The **inherited estate** provides capital to meet the regulatory reserving requirements of **LVFS** and supports its business risks. In doing this the capital provided by the **inherited estate** supports **LVFS's** ability to invest in **assets** delivering higher returns to policyholders while maintaining guaranteed benefits, the smoothing of benefits paid to policyholders and the ability of **LVFS** to accept new business.

Other than in future distributions of **mutual bonus** and **exit bonus** (see section 11), there are currently no constraints on the **LV= Board's** freedom to deal with the **inherited estate** of **LVFS** or any obligation on the **LV= Board** to distribute the **inherited estate** to the current generation of **members**.

The portion of the **inherited estate** used to support future **exit bonus** distributions (which come from proceeds from the sale of **LVFS's** general insurance business) is currently invested using a blended approach based on cash and the mix of assets in the fund options with the aim that it becomes fully in line with the latter during 2024.

11 What are mutual bonus and exit bonus?

Our **mutual bonus** rewards eligible **members**, like you, for their support of the development and growth of Liverpool Victoria Financial Services (LV=). It is not a guaranteed benefit and the amount can vary.

Our aim is to distribute our profits - via the **mutual bonus** - in a broadly stable and sustainable way, by maintaining our profitability and capital position. The **LV= Board** has full discretion and freedom when deciding to award a **mutual bonus**. The decision to award a **mutual bonus** is guided by the **Board's** overriding responsibility to balance the need to deliver for **members** both today and in the future, against LV's investment needs and projected **financial strength** of the fund. The Board could make adjustments or significant changes to the rates if circumstances require it. For example, if the current performance or capital position of the business differs materially from the business plan. Any past **mutual bonuses** could be reduced or removed, though could be reinstated at a later date.

Further information about **mutual bonus** can be found at **LV.com/mutualbonus**

For All-In-1 Investment Bonds and Guaranteed Capital Bonds

The rate of **mutual bonus** we will award for these plans is **six** times the level that we award for new with-profits plans. This reflects communications in 2020 regarding proceeds of the sale of the LV= General Insurance business and how the business has evolved since then.

We also use some of the sale proceeds to pay you an **exit bonus**. Each year the **LV= Board** will decide what **exit bonus** rate to award, considering what funds are still available from the sale proceeds, how investment markets perform, changes in the underlying value of plans, the number of active **members** who are eligible to receive it and our current and projected **financial strength**. The rate of **exit bonus** may be varied in future, including being set to zero in extreme circumstances. We currently expect to reduce the **exit bonus** before looking at potentially reducing past awards of the **mutual bonus**.

We add **mutual bonus** and **exit bonus** to your plan when it ends. When you take money out of your plan, **mutual bonus** is not included but **exit bonus** will be applied to reduce the number of units we cancel. **Mutual bonus** and **exit bonus** do not increase guaranteed benefits.

For Flexi Guarantee Plan, Flexible Guarantee Bond Series 1, Flexible Guarantee Bond Series 2 and Flexible Guarantee Funds Series 1

The rate of **mutual bonus** we will award for these plans is **three** times the level that we award for new with-profits plans. This reflects communications in 2020 regarding proceeds of the sale of the LV= General Insurance business and how the business has evolved since then.

We add **mutual bonus** to your plan when it ends. When you take money out of your plan, **mutual bonus** is not included. **Mutual bonus** does not increase guaranteed benefits.

These plans are not entitled to **exit bonus**.

For Flexible Guarantee Bond Series 3 and Flexible Guarantee Funds Series 2

The rate of **mutual bonus** we will award for these plans is at the level that we award for new with-profits plans.

Mutual bonus is allocated to your plan as extra units which are kept separate from any guaranteed benefits and will be added to the amount we pay out to you when you cash in your plan.

No **mutual bonus** is declared until a plan has been in force for 12 months.

These plans are not entitled to **exit bonus**.

12 What would happen if we stopped accepting new business?

We'll let people invest in **LVFS** as long as we feel it's in the interests of both our existing and new with-profits policyholders and doesn't threaten the ability of **LVFS** to meet its commitments to its **members**.

If we did ever stop accepting new business and closed **LVFS**, we'd share out its **inherited estate** in an equitable manner over the lifetime of the remaining with-profits plans held in **LVFS**. If this happened we might change the way we manage the fund, including the investment strategy and how we smooth returns.

13 How to find out more

We hope you've found this guide useful. To find out more about the technical details of our with-profits business, please read our Principles and Practices of Financial Management (PPFM) booklet.

On our website **LV.com/manage** you'll find the latest version of this guide, the more technical PPFM and annual reports on how we've managed the fund compared to our PPFM. If you would like us to send you a copy of any of these documents please let us know.

If you have any questions about what we've said in this document, please contact us or your financial adviser.

14 Glossary

Word/Phrase	Definition
Asset	An investment purchased with the prospect that it will increase in value and/or generate income. Examples of various types of asset are **shares** in companies, **fixed-interest investments**, **property** and cash. Depending on the type of asset, the value can go up and down and any income produced by it may change from one year to the next.
Board	The individuals elected by **LVFS members** to oversee the management of **LVFS** on their behalf.
Exit bonus	Information on exit bonus can be found in section 11 of this guide.
Financial strength	Financial strength is measured by how much the value of an **insurer's** assets exceed the value of its **liabilities**. It is an indicator of the **insurer's** ability to withstand adverse economic conditions.
Fixed-interest investments	Loans made to governments or companies for a set period, in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period.
Government bonds	Loans made to governments for a set period, usually in return for a fixed rate of interest. The interest is paid regularly, with the face value of the loan being returned at the end of the period. UK government bonds are also known as gilts.
Inherited estate	Information on the inherited estate can be found in section 10 of this guide.
Insurer	A company or mutual organisation that provides insurance products to the general public.
Liabilities	An **insurer's** debts or obligations that arise during the course of its operations. This includes the promises it makes to its policyholders to pay their claims.
LVFS / LV=	Liverpool Victoria Financial Services Limited.
Members	As a with-profits policyholder, you are also a member of **LVFS**. **LVFS** is owned by its members, who can have their say in the running of **LVFS** through its Annual General Meeting. Members can also receive other benefits. For full details, please see our website at **LV.com/members**
Mutual bonus	Information on mutual bonus can be found in section 11 of this guide.
Property	An investment in **assets** such as offices, and retail and industrial premises, which generate income and whose value can go up or down.
RNPFN Fund	The RNPFN Fund is a ring-fenced fund within **LVFS** which includes the RNPFN with-profits policies. **LVFS** took over the RNPFN business in 2001.
Shares	A share represents a part ownership of a company and carries with it the entitlement to a proportion of the company's profits, paid as dividends. The value of shares can go up or down quickly, as they are influenced by national and world events. Shares are also known as equities.
Teachers Assurance Fund	The Teachers Assurance Fund is a ring-fenced fund within **LVFS** which includes Teachers with-profits policies. **LVFS** took over the Teachers business in 2016.

If you'd like us to send you this document or any future correspondence in another format, such as Braille or large print, please just let us know.

Liverpool Victoria Financial Services Limited: County Gates, Bournemouth, BH1 2NF.

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